

September 2, 2005



Oversight Review

Quality Control Review of Naval Audit
Service's Special Access Program Audits
(Report No. D-2005-6-010)

Department of Defense
Office of the Inspector General

Quality

Integrity

Accountability

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Acronyms

AAA	Army Audit Agency
AIC	Auditor-In-Charge
GAS	Government Auditing Standards
NAVAUDSVC	Naval Audit Service
PCIE	President's Council on Integrity and Efficiency
SAP	Special Access Program



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

SEP - 2 2005

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE NAVY

SUBJECT: Quality Control Review of Naval Audit Service's Special Access Program Audits (Report No. D-2005-6-010)

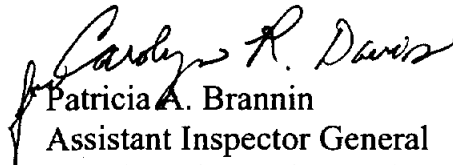
We are providing this report for your review and comment. We have reviewed the Naval Audit Service (NAVAUDSVC) system of quality control used on Special Access Program (SAP) audits for the three years ended September 30, 2004. The Government Auditing Standards (GAS) require that an audit organization performing audits and/or attestation engagements in accordance with GAS should have an appropriate internal quality control system in place and undergo an external peer review at least once every 3 years by reviewers independent of the audit organization being reviewed. As the organization that has audit policy and oversight responsibilities for audits in the Department of Defense, we conducted this external peer review of the NAVAUDSVC audits requiring special access in conjunction with the Army Audit Agency's external peer review of NAVAUDSVC non-SAP audits.

An audit organization's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance of meeting the objectives of quality control. We tested the NAVAUDSVC SAP system of quality control to the extent considered appropriate.

In our opinion, the NAVAUDSVC system of quality control used on SAP audits in effect for the period ended September 30, 2004, was designed in accordance with quality standards established by GAS. Further, the internal quality control system was operating effectively to provide reasonable assurance that SAP audit personnel were following established policies, procedures, and applicable auditing standards. Accordingly, we are issuing an unqualified opinion on your quality control system used on SAP audits for the review period ended September 30, 2004.

Appendix A contains the scope and methodology of the review. Appendix B contains comments, observations, and recommendations where NAVAUDSVC can improve its quality control program related to SAP audits, as well as our responses to NAVAUDSVC management comments to the draft report. Appendix C provides the full text of management comments in response to the draft report. Please provide additional comments in response to Appendix B by September 19, 2005.

We wish to express our thanks to you and your staff for your cooperation and professionalism. Please contact Mr. Robert L. Kienitz at (703) 604-8754 (DSN 664-8754) or Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877) if you have any questions.


Patricia A. Brannin
Assistant Inspector General
Audit Policy and Oversight

Cc: Director, DoD Special Access Program Coordination Office

Appendix A. Scope and Methodology

We limited our review to the adequacy of NAVAUDSVC SAP auditors' compliance with quality policies, procedures, and standards. We judgmentally selected 3 SAP audits from a universe of 11 formal reports requiring special access issued by the NAVAUDSVC Special Audits Division in FYs 2002, 2003, and 2004, and tested each audit for compliance with the NAVAUDSVC system of quality control. The Army Audit Agency (AAA) conducted a review of the NAVAUDSVC internal quality control system for non-SAP audits and/or attestation engagements and has issued a separate report. The Assistant Inspector General for Audit Policy and Oversight will issue an overall opinion report on the NAVAUDSVC internal quality control system that will include the combined results of the reviews of SAP and non-SAP audits.

In performing our review, we considered the requirements of quality control standards and other auditing standards contained in the 2003 Revision of the *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States. GAS 3.52 states:

The external peer review should determine whether, during the period under review, the reviewed audit organization's internal quality control system was adequate and whether quality control policies and procedures were being complied with to provide the audit organization with reasonable assurance of conforming with applicable professional standards. Audit organizations should take remedial, corrective actions based on the results of the peer review.

We conducted this review in accordance with standards and guidelines established in the Draft 2004 President's Council on Integrity and Efficiency (PCIE) "Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General." We modified the Guide to ensure consistency with the AAA review of non-SAP audits, and to reflect the unique nature of auditing within a SAP environment. We interviewed NAVAUDSVC auditors and their managers, reviewed NAVAUDSVC internal audit-related policies and procedures. We performed this review in May through June 2005 at the NAVAUDSVC Special Audits Division.

We used the following criteria to select the audits under review:

- Worked backward starting with FY 2004 audits in order to review the most current quality assurance procedures in place.
- Eliminated Base Realignment and Closure audits because they are not considered typical audits.
- Avoided audits with multiple SAPs associated with the audit for ease of access.
- Avoided audits that have the same or similar titles to ensure review of multiple types of projects.

The following table identifies the specific reports reviewed.

Report Number	Date	Title
N2003-0046	April 30, 2003	“Travel Cards”
N2003-0013	November 12, 2002	“Purchase Cards”
N2002-0076	September 27, 2002	“Contract Closeout”

Limitations of Review. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance with it because we based our review on selective tests. There are inherent limitations in considering the potential effectiveness of any quality control system. In performing most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other human factors. Projecting any evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate because conditions may change or the degree of compliance with procedures may deteriorate.

Appendix B. Comments, Observations, and Recommendations

We are issuing an unqualified opinion on this external peer review because the concerns we identified during our review were not cumulatively significant to the reports' findings, conclusions, or recommendations. Overall, we found that NAVAUDSVC could improve the quality control program and guidance for audits related to the areas of Audit Planning, Supervision, Evidence and Audit Documentation, and Quality Assurance. We also noted one other matter of interest related to a PCIE-required certification of working paper completion. Implementing the recommendations identified below would improve the quality control system and help maintain an unqualified opinion.

Audit Planning. GAS 7.02 states that “work is to be adequately planned,” and GAS 7.07 states that “planning should be documented.” GAS 7.41 requires auditors to document the planning, and states “the form and content of the written audit plan will vary among audits, but should include an audit program or project plan, a memorandum, or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and of the auditors’ basis for those decisions. It should be updated, as necessary, to reflect any significant changes to the plan made during the audit.”

The September 2002 NAVAUDSVC Handbook Sections 415.2 and 415.3 required the responsible Audit Director and Assistant Auditor General to approve audit programs before the start of the audit verification phase, and to be aware of any significant changes to the audit program. NAVAUDSVC Handbook Section 510.5 stated that when reviewing individual working papers (including the audit program), the Project Manager must include his/her initials or signature and the date of the review on the working papers as evidence of the review. NAVAUDSVC Handbook Section 417 required auditors to cross-reference audit steps to supporting working papers, and NAVAUDSVC Handbook Section 412.1 required auditors to evaluate the reliability of computer-based products to determine risks in using such products that are significant to the audit objective(s) and scope.

We found that NAVAUDSVC adequately planned the three projects we reviewed; however, improvements in documentation were needed for all three projects. In one project, the auditors created an audit program that set forth the objectives of the audit and included steps to address each of the objectives, and the Project Manager documented approval with initials and date. The Project Manager also initialed the final cross-referenced version of the audit program. However, the Project Manager did not date his initials on the final cross-referenced version. In addition, the audit program did not include steps to verify data received through management from outside sources (the travel card contractor). The Project Manager stated that although these steps were not

specifically in the audit program, he believed the auditors did verify this data through other steps in the program.

In the second project, we found evidence of supervisory involvement and approval of the audit plan. However, the audit plan was not cross-referenced to the working papers. Therefore, we could not tell whether all steps in the audit plan were completed or modified and if so whether the NAVAUDSVC management approved the modifications.

In the third project, we did not find documented supervisory approval of the audit program. Though we could not tell in reviewing the audit program whether any modifications were made to the audit plan, this project was the fifth in a series of six, and NAVAUDSVC auditors indicated during our review that the plan had been standardized by the time this audit was performed. In addition, though the audit program was cross-referenced to the working papers, the program provided for auditors' initials and date for each step but that column was not completed.

Recommendation. We recommend that the Auditor General, Department of the Navy, remind all SAP managers to document their approval for all original and updated audit programs (including the cross-referenced version), ensure that the audit programs include steps for verifying data obtained from outside sources during the audit, ensure the audit program is adequately cross-referenced to working papers, and complete the initial and date column if such a column is included in the audit program.

Management Comments. The NAVAUDSVC concurred with the recommendation and stated that an all-hands e-mail will be issued by November 30, 2005, reminding all personnel of existing NAVAUDSVC requirements pertaining to audit programs and evaluating computer-based products to determine risks.

Reviewer Response. Management comments are responsive.

Supervision. Paragraph 6.22 of the June 1994 version of GAS and paragraph 7.44 of the June 2003 version of GAS state that "staff are to be properly supervised." The November 2001 version of the NAVAUDSVC Handbook Paragraph 510(4) stated that the Project Manager or a senior experienced auditor should review individual working papers. To provide evidence of the review, the reviewer should include their initials or signature and the date of the review on the working papers. Also, the Handbook stated that the Audit Director should review working papers supporting unusually sensitive findings and conclusions and that the Audit Director should place emphasis on work performed by the Project Manager.

The projects showed evidence of supervisory involvement and oversight; however, improvements could be made for documenting supervisory review in two projects. In one project, while there was evidence of supervisory involvement which was indicated by

the Project Manager signing the working papers reviewed, the Project Manager did not provide a date of the review for 7 of the 10 working papers reviewed. For the working papers that were dated by the Project Manager the review was timely. However, for the remaining working papers we could not tell whether the supervisory review was timely. In addition, none of the 12 working papers prepared by the Project Manager were reviewed. The Project Manager stated that the Audit Director relied on the experience and expertise of the Project Manager.

In the second project, while there was evidence of supervisory involvement, only 24 percent of the working papers we looked at were reviewed by the supervisor. We reviewed at least 7 of 11 file folders of working papers. We reviewed a total of 59 working papers and found that only 14 of the 59 were reviewed by a supervisor. Nine of the 59 had working paper review sheets filled out; however 2 of the 9 had no reviewer sign off of approval of actions taken. For the working papers that were signed off by the Project Manager the review was timely. However, for the remaining working papers we could not tell whether supervisory review was conducted or timely. The Project Manager stated that critical working papers should have been reviewed based on then current NAVAUDSVC guidance. However, we found that 21 of the 59 working papers were cross-referenced to the report and therefore considered critical and quite often documented significant facts and figures in the report.

Recommendation. We recommend that the Auditor General, Department of the Navy remind SAP supervisors to sign/initial and date their review of working papers and that working papers used to support referenced draft/final report statements (specifically facts and figures) should be reviewed by the supervisory personnel.

Management Comments. The NAVAUDSVC concurred with the recommendation and stated that an all-hands e-mail will be issued by November 30, 2005, reminding all personnel of existing NAVAUDSVC requirements related to documentation of supervision.

Reviewer Response. Management comments are responsive.

Evidence and Audit Documentation. Working papers are used to organize, prepare, and collect relevant documentation and records during an audit. GAS 7.66 requires that auditors prepare and maintain audit documentation, and that the audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report. GAS 7.68 states that the audit documentation forms the principal support for the auditors' report. In addition, the September 2002 NAVAUDSVC Handbook Section 506.2 required auditors to include "basic labeling information" such as the auditor's name, date prepared, the source of the information (if the source was an individual, this should include the person's rank or grade; name; position title; telephone number; organization; and date, time, and place information was provided), and the

purpose of the working paper. NAVAUDSVC Handbook Section 509.1 stated that “All facts and mathematical computations in draft and final reports and related working paper summaries must be cross-referenced to underlying working papers.”

We found that the working papers generally contained sufficient, competent, and relevant evidence to support the judgments and conclusions in the reports; however, documentation could have been improved in all three reports. In one report, we found that the auditor did not document the “date prepared” on several working papers used to document meetings with client management. This is mitigated somewhat by the fact that the working papers did include the dates of the meetings. In addition, we reviewed more than 15 judgmentally selected facts and figures in the report and found that all were supported by information in the working papers. However, in eight of the sample items, we found figures that were inadequately cross-referenced to supporting documentation. Also, in several cases, figures cross-referenced to source documents did not have adequate source information (names and phone numbers). Further, one figure cross-referenced to briefing charts prepared by management was not verified against source documents in the working paper files (this figure was the universe of transactions which the auditors drew their sample from).

In the second report, though the facts and figures in the report were verified by the independent referencing reviewer, the working papers supporting numerous facts and figures in the report were not documented as reviewed by a supervisor. In addition, improvements could be made in the independent reference review process to ensure that corrected references are not only included and approved on the independent referencing review comment sheet but also changed in the cross-referenced version of the report. We found instances where the corrected reference on the review sheet was not changed in the cross-referenced report resulting in the risk of transferring incorrect references to the final report.

In the third report, we judgmentally selected 15 facts and figures from the report and determined that all of them were properly supported. However, improvements could be made for cross-referencing working papers. Specifically, the summary working paper was not cross-referenced to the supporting working papers and a better job could have been done of cross-referencing numbers in the individual working papers and Excel spreadsheets to the source documents. The source documents included such things as various reports and other information obtained from contract files.

Recommendation. We recommend that the Auditor General, Department of the Navy, remind all SAP auditors to comply with established guidance for working papers, documentation, and audit evidence, including transferring corrected references to the cross-referenced report.

Management Comments. The NAVAUDSVC concurred with the recommendation and stated that an all-hands e-mail will be issued by November 30, 2005, reminding auditors of existing GAS and NAVAUDSVC guidance related to working papers, documentation, and audit evidence.

Reviewer Response. Management comments are responsive.

Quality Assurance. The June 1994 version of GAS and paragraph 3.49 of the June 2003 version required each organization to have an appropriate internal quality control system in place. The November 2001 version of the NAVAUDSVC Handbook stated that an example of quality control in the NAVAUDSVC was a referencing validation performed by an independent auditor. We found that NAVAUDSVC had implemented appropriate internal quality controls for the three reports we reviewed; however, documentation could have been improved for one report. While an Independent Referencing Review was done before the draft report was issued and there was evidence that comments that the Independent Referencer had were adequately addressed by the Project Manager, improvements could be made in completing the referencer's certification. While the referencing certification statement was signed by the Independent Referencer, the statement was not signed by the Project Manager and/or Audit Director.

GAS 3.50 requires that an audit organization's internal quality control system should include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied. This is often referred to as an internal quality assurance program.

The NAVAUDSVC Handbook provides guidance on the NAVAUDSVC Quality Control Program. The NAVAUDSVC Quality Control Program includes internal quality control checks and reviews. As part of the NAVAUDSVC Quality Control Program, independent, internal quality control reviews of selected audits or segments of audits will be conducted to provide reasonable assurance NAVAUDSVC policies and procedures were being followed and are in accordance with GAS. The internal quality control reviews will be performed in accordance with the NAVAUDSVC Handbook. In addition, the quality control review results will be documented and recommendations tracked through to final resolution. The NAVAUDSVC Special Audits Division was responsible for audits of intelligence, compartmented programs and sensitive activities.

According to NAVAUDSVC personnel, audits classified as requiring special access are only a portion of the Special Audits Division workload. Other information, such as intelligence or intelligence related information might be compartmented or not. The audit work is not unique; the work is only classified at a higher level with additional access restrictions. The Special Audits Division products that do not require special access are always eligible for internal quality assurance reviews. The NAVAUDSVC Handbook does not exempt or waive SAP audits from internal quality assurance reviews.

However, NAVAUDSVC personnel from the Policy and Oversight Division stated that SAP audits have never been included as part of the internal quality assurance review program except for controls over things like continuing professional education that do not require the reviewer to have access to the highly classified report and/or working papers.

Special Audits Division products that do require special access should be subject to internal quality assurance reviews due to challenges in meeting the other quality processes that are identified in this report. The need for special access and security requirements in the SAP environment impact on the extent of supervision, documentation, and quality controls compared to an unclassified environment. In addition, occurrence of an external peer review is rare within the SAP audit environment. Periodically performing internal quality assurance reviews on SAP audits would allow for greater reliability on the quality (including accuracy) of these very important SAP audit reviews and the associated reports that address areas and programs that impact heavily on our national security.

We recognize that the usual NAVAUDSVC quality assurance program may need to be adapted to the SAP environment. However, having the internal quality assurance visibility within the SAP environment is critical to an effective quality program.

Recommendation. We recommend that the Auditor General, Department of the Navy, remind SAP supervisors to sign the referencer certification statement.

Management Comments. The NAVAUDSVC concurred with the recommendation and stated that an all-hands e-mail will be issued to auditors by November 30, 2005, reminding supervisors to sign the referencer certification statement.

Reviewer Response. Management comments are responsive.

Recommendation. We recommend that the Auditor General, Department of the Navy, adapt its internal quality control review program, as needed, for SAP audits.

Management Comments. The NAVAUDSVC partially concurred with the recommendation and stated that they will adapt its internal quality control program to SAP audits as needed. However, the NAVAUDSVC also stated that this would entail only continuing to include SAP auditors in cross-cutting internal quality control reviews, and not reviewing specific SAP audits. The NAVAUDSVC stated that including SAP audits in internal quality control reviews would be contrary to DoD policy because it would require obtaining access to the SAPs for additional personnel without the justification of additional oversight to the SAP.

Reviewer Response. Management comments are partially responsive. Based on our review and understanding of the NAVAUDSVC process, they include the SAP

auditors in the internal quality assurance process up to a point. While the examples they cited in their comments – certifications and continuing professional education – are important, they do not include a review of critical elements of the audit standards related to audit planning, evidence and documentation, and reporting. Without a review of project-specific audit work and documentation, it is not possible for NAVAUDSVC to verify that SAP auditors are complying with guidance and standards. NAVAUDSVC needs to insure more than the “administrative requirements in the Naval Audit Service Handbook” are met. We recognize that the SAP audits could not be treated the same as non-SAP audits in the internal quality assurance program, especially for the critical elements listed above. However, alternative procedures can be performed that would meet the requirements of GAS for on-going monitoring. We believe that NAVAUDSVC can include some of these highly classified programs in its reviews without necessarily getting additional people cleared. Using the Program Director, current staff who did not work on the audit, or former staff with the requisite clearance are possible options.

We request that the Auditor General, Department of the Navy reconsider his decision not to include SAP audits in the NAVAUDSVC internal quality control review program, and provide additional comments by September 19, 2005.

Other Matter of Interest. GAS 7.66 states that "audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report." In addition, GAS 8.44 states that reports "should include only information, findings, and conclusions that are supported by sufficient, competent, and relevant evidence in the audit documentation." The July 2004 Draft PCIE Guide required agencies being reviewed to either provide working papers to the reviewers within 2 working days of notification that a project has been selected for review. If the agency cannot provide the working papers within 2 working days, PCIE provides a form that the agency must use to either certify that the working papers had not been changed after the final report was issued or document changes that had been made since the report was issued and explain why the changes were made.

NAVAUDSVC personnel agreed during the planning phase of the FY 2005 round robin external peer review to follow the July 2004 Draft PCIE Guide. At the start of the round robin external peer review it was agreed that the Military Department audit agencies would conduct the external peer review of the unclassified and collateral audits while the Office of the Inspector General; Department of Defense would conduct the review of the SAP audits. Due to the unique security requirements of auditing special access information, at least 48 working days passed between when we notified NAVAUDSVC of the audits selected for review and when we obtained physical access to the working papers. However, NAVAUDSVC personnel chose not to certify that the working papers had not been changed since reports were issued, or to document and explain any changes made to the working papers because: (1) the working papers were available within 48 hours as required by the draft PCIE guide just not to the peer review team; (2) the

selected audits were several years old and the working papers were all hard copy; and (3) none of the NAVAUDSVC staff who had worked on the audits were still in the Special Audits Division. Therefore, NAVAUDSVC personnel certified that the working papers had not been changed since the date that they provided us the universe of SAP audit reports issued during FYs 2002, 2003, and 2004. However, the working papers were not technically available given that NAVAUDSVC could not provide us with access to the working papers until the appropriate security procedures were taken care of.

NAVAUDSVC personnel stated that NAVAUDSVC policy at the time of our review was to include any post-audit work (including responses to final report and follow-up of recommendations) in the working papers of the audit. As a result of concerns about post-report issuance changes to audit documentation and notification of peer review as part of the round robin performed by the Army Audit Agency, NAVAUDSVC is instituting a new procedure for compiling all post-audit documentation in a file separate from the rest of the audit documentation. This action should safeguard audit documentation used to support findings, conclusions, and recommendations after final report issuance. Though manual working papers are used in the SAP environment, NAVAUDSVC should incorporate the new procedure within the SAP audit environment to reduce the potential that audit documentation used to support findings, conclusions, and recommendations in the final report can be inappropriately changed.

Recommendation. We recommend that the Auditor General, Department of the Navy, ensure that the new procedure on post-audit documentation be incorporated into the SAP audit process.

Management Comments. The NAVAUDSVC concurred and stated that they will develop and implement post-audit procedures for SAP audit documentation by November 30, 2005.

Reviewer Response. Management comments are responsive.

Appendix C. Management Comments



DEPARTMENT OF THE NAVY
NAVAL AUDIT SERVICE
1006 BEATTY PLACE SE
WASHINGTON NAVY YARD, DC 20374-5005

24 Aug 2005

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR
GENERAL (AUDIT POLICY AND OVERSIGHT)

Subj: **COMMENTS ON DRAFT REPORT ON QUALITY CONTROL REVIEW OF
NAVAL AUDIT SERVICE'S SPECIAL ACCESS PROGRAM AUDITS**

Ref: (a) Memorandum for Auditor General, Department of the Navy – Quality Control
Review of Naval Audit Service's Special Access Program Audits
(Project No. D2005-DIPOAI-0098)

Encl: (1) Department of Defense Assistant Inspector General (Audit Policy and Oversight)
Recommendations and Naval Audit Service Comments

1. We have reviewed the report on the Naval Audit Service's Special Access Program Audits (reference a), and are pleased that Department of Defense Inspector General has provided us with an unqualified opinion on our system of quality control for the year ended 30 September 2004. Enclosure (1) contains our overall comments on the report and a response to each of the recommendations.

2. If you have any questions, or would like additional information, please contact Vicki McAdams, Deputy Director of Policy and Oversight, at Vicki.mcadams@navy.mil or (202) 433-5685; or me at jonathan.kleinwaks@navy.mil or (202) 433-5854.

A handwritten signature in cursive script, reading "Jonathan Kleinwaks".

JONATHAN KLEINWAKS
Director, Policy and Oversight

Department of Defense Assistant Inspector General (Audit Policy and Oversight) Recommendations and Naval Audit Service Comments

Overall Comment

The Naval Audit Service (NAVAUDSVC) is pleased to receive an unqualified opinion on its quality control system for special access program (SAP) audits. We have evaluated the report and concur with all recommendations. Our planned actions are described later in this memorandum.

We do, however, have a concern with the draft report comments pertaining to the unqualified opinion. Specifically, we disagree with the Appendix B statement that says "We are issuing an unqualified opinion on this external peer review because this is the first external peer review of NAVAUDSVC audits requiring special access..." We believe this statement should be removed because it implies that if this had not been the first external peer review of our SAP audits, a less than unqualified opinion may have been issued. In fact, this is not the case. The Department of Defense Inspector General (DoDIG) peer review team concluded and reported that the NAVAUDSVC "internal quality control system was operating effectively to provide reasonable assurance that SAP audit personnel were following established policies, procedures, and applicable auditing standards," and that the concerns "identified during the review were not cumulatively significant to reports' findings, conclusions, or recommendations." Clearly, as the peer review found, the unqualified opinion has nothing to do with the newness of the SAP peer review.

DoDIG Recommendations and NAVAUDSVC Responses

Recommendation 1. We recommend that the Auditor General, Department of the Navy, remind all SAP managers to document their approval for all original and updated audit programs (including the cross-referenced version), ensure that the audit programs include steps for verifying computer data obtained during the audit, ensure the audit program is adequately cross-referenced to working papers, and complete the initial and date column if such a column is included in the audit program.

NAVAUDSVC Response. Concur. An All-Hands email will be issued reminding all personnel of the Naval Audit Service Handbook requirements pertaining to audit programs, and the requirement to evaluate computer-based products to determine risks. Action will be completed by 30 November 2005.

Recommendation 2. We recommend that the Auditor General, Department of the Navy remind SAP supervisors to sign/initial and date their review of working

Enclosure (1)
Page 1 of 3

papers and that working papers used to support referenced draft/final report statements (specifically facts and figures) should be reviewed by the supervisory personnel.

NAVAUDSVC Response. Concur. An All-Hands email will be issued reminding all personnel of this Naval Audit Service Handbook requirement. Action will be completed by 30 November 2005.

Recommendation 3. *We recommend that the Auditor General, Department of the Navy, remind all SAP auditors to comply with established guidance for working papers, documentation and audit evidence, including transferring corrected references to the cross-reference report.*

NAVAUDSVC Response. Concur. An All-Hands email will be issued reminding auditors of the Government Auditing Standards and NAVAUDSVC Handbook policy for working papers, documentation, and audit evidence. Action will be completed by 30 November 2005.

Recommendation 4. *We recommend that the Auditor General, Department of the Navy, remind SAP supervisors to sign the referencer certification statement.*

NAVAUDSVC Response. Concur. An All-Hands email will be issued reminding supervisor's to sign the referencer certification statement. Action will be completed by 30 November 2005.

Recommendation 5. *We recommend that the Auditor General, Department of the Navy, adapt its internal quality control review program, as needed, for SAP audits.*

NAVAUDSVC Response. Concur. The NAVAUDSVC will adapt its internal quality control review program to SAP audits as needed. However, it should be noted that, at this time, we believe our current internal quality control program is sufficient for SAP audits. Specifically, SAP auditors are routinely included in NAVAUDSVC quality control reviews because our internal quality control review program routinely conducts crosscutting quality control reviews that cover all audits. These reviews have not and will not exclude SAP auditors. For example, we recently conducted a review to determine whether the NAVAUDSVC complied with continuing professional education requirements relative to the auditor competency standard as defined by Generally Accepted Government Auditing Standards (GAGAS), and we currently have a quality control review ongoing to determine whether employee degree and certification data is accurate. Personnel responsible for conducting SAP reviews have been and will be included in these quality control reviews.

We believe this approach of including SAP audit staff in quality control reviews makes the most sense, as it is consistent with national security interests. Conducting routine quality control reviews of SAP program

Enclosure (1)
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audits would be contrary to DoD Directive 0-55205.7, which states, "Granting access to a DoD SAP shall be based solely upon a determination that the individual has a valid need-to-know...and will clearly and materially contribute to the execution or oversight of the program."

Neither our internal quality control reviews nor this external peer review have identified any issues that "clearly and materially contribute to the execution or oversight of the program." Specifically, quality control reviews have typically identified issues such as the inadequate documentation of supervision and lack of compliance with administrative requirements in the Naval Audit Service Handbook, and poor recordkeeping procedures. While these are important issues, we do not need to and should not provide access to the some of the nation's most highly classified programs to identify and resolve such issues.

Additionally, when we implement process improvements to address quality control findings, we routinely apply them to all of our audits, including the SAP audits. This is possible because, as the peer review report notes, SAP "audit work is not unique." In fact, the SAP audits reviewed in this peer review covered areas similar to other audits. Thus, all of our audits, including the SAP audits, are able to benefit from internal quality control reviews, without us needing to provide unnecessary access to the SAP programs.

In light of the nature of the findings presented in both our internal quality control reviews and the external peer review, at this time there is no justification for deviating from our current approach of including SAP auditors in crosscutting internal quality control reviews. Action is considered complete.

Recommendation 6. *We recommend that the Auditor General, Department of the Navy, ensure that the new procedure on post-audit documentation be incorporated into the SAP process.*

NAVAUDSVC Response. Concur. We have recently implemented automated post-audit documentation procedures for non-SAP audits. Because SAP work papers are manual and subject to special security and storage rules, different post-audit documentation procedures are being developed and implemented for these special work papers. Action will be completed by 30 November 2005.

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